

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

ZINUS INC., a California Corporation,)
Plaintiff,)
v.)
SIMMONS BEDDING CO, a Delaware)
Corporation, and DREAMWELL, LTD, a)
limited liability company of Nevada)
Defendants.)
_____)
AND RELATED COUNTERCLAIMS)
_____)

Case No.: C 07- 3012 PVT

**ORDER GRANTING MOTION TO
DISMISS**

I. INTRODUCTION

Zinus, Inc. ("Zinus") filed this action against Simmons Bedding Company ("Simmons") and Dreamwell, Ltd. ("Dreamwell," collectively "Defendants") seeking Declaratory Judgement of non-infringement and invalidity of the U.S. Patent Re. 36,142 ("the '142 Patent").¹ Zinus further alleged that Simmons breached a Confidentiality and Non-Disclosure Agreement under which Simmons agreed not to use or disclose Zinus' business proprietary information without Zinus' authorization. Defendants asserted counterclaims against Zinus for infringement of the '142 Patent and Dreamwell's POCKET COIL® Trademark. Presently before the Court is Simmons' Motion to Dismiss under Federal Rule of Civil Procedure 12(b)(6) for failure to state a

¹ The holding of this court is limited to the facts and the particular circumstances underlying the present motion.

1 claim upon which relief can be granted.

2 **A. Factual Background**

3 Zinus manufactures and sells a bedding product called "Mattress-in-a-box," which can be
4 sold in a transportable package at mass retail stores. (First Amended Complaint "FAC" ¶ 19).
5 During a pilot project in late 2006 and early 2007, Wal-Mart sold Zinus' Mattress-in-a-box
6 products at some of its stores. (FAC ¶ 20). Wal-Mart plans to include Zinus' Mattress-in-a-box
7 products in its new sales and marketing campaign throughout its stores. (FAC ¶ 20). Currently,
8 the Mattress-in-a-box products are sold at Wal-Mart.com USA, which is an affiliated company
9 of Wal-Mart. (FAC ¶ 20).

10 Defendant Simmons is a manufacturer of bedding products. (FAC ¶ 5). Defendant
11 Dreamwell is a wholly-owned subsidiary of Simmons. (FAC ¶ 5). Dreamwell's business is
12 licensing intellectual property, including its patent portfolio relating to bedding products. (FAC
13 ¶ 5). Dreamwell is the sole assignee-owner of the '142 Patent, entitled Method of Packaging
14 Resiliently Compressible Articles. (FAC ¶ 5). Dreamwell is also the sole owner of a federal
15 trademark "POCKET COIL®." (Exh. C to FAC). In March 2007, Simmons and Zinus met to
16 discuss the possibility of Simmons buying products from Zinus and Simmons expressed interest
17 in visiting the Zinus factory in China. (FAC ¶ 23). Before the factory visit, Zinus and Simmons
18 executed a Confidentiality and Non-Disclosure Agreement precluding Simmons' use of any
19 confidential Zinus' information without Zinus' authorization. (FAC ¶ 24, Exh. B to FAC).
20 During the factory visit, the Simmons representatives observed the Mattress-in-a-box
21 manufacturing process and took photographs. (FAC ¶ 25).

22 In May, Zinus received a cease-and-desist letter from Dreamwell stating that Zinus'
23 Mattress-in-a-Box product appropriates its '142 Patent and infringes its proprietary brand
24 "POCKET COIL®" Trademark. (FAC ¶ 26, Exh. C to FAC). Wal-Mart also received a similar
25 letter from Dreamwell. (FAC ¶ 27, Exh. D to FAC). Attached to the letter to Wal-Mart was a
26 photograph of Zinus' Mattress-in-a-Box product. (FAC ¶ 28). Zinus' Mattress-in-a-Box package
27 displays stylized text "Pocket Coil Spring Mattress." (Exh. D to FAC).

28 In its letter to Wal-Mart, Dreamwell claimed that the attached image was a photograph of

1 a Mattress-in-a-box that Dreamwell had purchased at a Wal-Mart store. (FAC ¶ 28, Exh. D to
2 FAC). Zinus, however, alleges that this photograph was taken by Simmons representatives
3 during Zinus' factory tour in China. (FAC ¶ 28). Zinus alleges that Simmons breached the
4 Confidentiality and Non-Disclosure Agreement by disclosing Zinus' confidential business
5 proprietary information, including the photograph, to Dreamwell. (FAC ¶ 59).

6 **B. Procedural Background**

7 Zinus filed the Complaint for Declaratory Judgment, Unfair Competition and Breach of
8 Contract asserting claims for: (1) Declaratory Judgment that Zinus' Mattress-in-a-box does not
9 violate Dreamwell's '142 Patent (First Count); (2) Declaratory Judgment that Dreamwell's '142
10 Patent is invalid (Second Count); (3) Violation of the Lanham Act of 15 U.S.C. § 1125(a) by
11 Dreamwell and Simmons by making false and misleading statements in the cease-and-desist
12 letters which disparaged Zinus' product (Third Count); and (4) Breach of the Confidentiality and
13 Non-Disclosure Agreement (Fourth Count).

14 Simmons moved to dismiss Complaint pursuant to Fed. R. Civ. Proc. 12(b)(6). On
15 October 30, 2007, the Parties appeared before Magistrate Judge Patricia V. Trumbull for a
16 hearing on Defendant's Motion to Dismiss pursuant to Fed. R. Civ. Proc. 12(b)(6). All parties
17 who have appeared in this action have consented to Magistrate Judge jurisdiction.

18 **II. STANDARD OF REVIEW**

19 A motion to dismiss under Fed. R. Civ. Proc. 12(b)(6) tests the legal sufficiency of the
20 claims alleged in the complaint. *See Parks Sch. of Business v. Symington*, 51 F.3d 1480, 1484
21 (9th Cir. 1995). Dismissal under Fed. R. Civ. Proc. 12(b)(6) may be based either on the "lack of
22 a cognizable legal theory" or on "the absence of sufficient facts alleged under a cognizable legal
23 theory." *Balistreri v. Pacifica Police Dep.*, 901 F.2d 696, 699 (9th Cir. 1990). Hence, the issue
24 on a motion to dismiss for failure to state a claim is not whether the claimant will ultimately
25 prevail but whether the claimant is entitled to offer evidence to support the claims asserted.
26 *Gilligan v. Jamco Development Corp.*, 108 F.3d 246, 249 (9th Cir. 1997). When evaluating such
27 a motion, the court must accept all material allegations in the complaint as true and construe
28 them in the light most favorable to the non-moving party. *Cahill v. Liberty Mut. Ins. Co.*, 80

1 F.3d 336, 340 (9th Cir. 1996).

2 Pursuant to Fed. R. Civ. Proc. 8(a) and under the liberal federal pleading rules, notice and
3 clarity of claims is all that is required. *Colaprico v. Sun Microsystems, Inc.*, 758 F. Supp. 1335,
4 1337 (N.D. Cal. 1991). However, an allegation that is a mere conclusion of law without facts
5 that is not "enough to raise a right to relief above the speculative level" may not survive a motion
6 to dismiss. *See Bell Atlantic*, 127 S.Ct. at 1959.

7 "[C]onclusory allegations of law and unwarranted inferences," however, "are insufficient
8 to defeat a motion to dismiss for failure to state a claim." *Epstein v. Washington Energy Co.*, 83
9 F.3d 1136, 1140 (9th Cir. 1996). Additionally, the Supreme Court has recently rejected the
10 oft-quoted formulation of *Conley v. Gibson*, 355 U.S. 41, 47, (1957) that "a complaint should not
11 be dismissed for failure to state a claim unless it appears beyond doubt that the plaintiff can
12 prove no set of facts in support of his claim which would entitle him to relief." *See Bell Atlantic*
13 *Corp. v. Twombly*, 127 S.Ct. 1955, 1968 (2007). Rather, the allegations in the complaint "must
14 be enough to raise a right to relief above the speculative level." *Id.* at 1965. A motion to dismiss
15 should be granted if the complaint does not proffer enough facts to state a claim that is plausible
16 on its face. *Id.* at 1966-67.

17 Fed. R. Civ. Proc. 15 permits a plaintiff to amend a complaint after a responsive pleading
18 has been filed. "[T]he Supreme Court has instructed the lower federal courts to heed carefully
19 the command of Rule 15(a), F[ed]. R. Civ. P., by freely granting leave to amend when justice so
20 requires." *DCD Programs, Ltd. v. Leighton*, 833 F.2d 183, 186 (9th Cir. 1987) (citations
21 omitted). Courts only dismiss claims without leave to amend if the deficiencies cannot possibly
22 be cured. Leave to amend should be granted unless the court "determines that the pleading could
23 not possibly be cured by the allegation of other facts." *Doe v. United States*, 58 F.3d 494, 497
24 (9th Cir. 1995) (citation omitted).

25 **III. DISCUSSION**

26 **A. Plaintiff's First and Second Counts of Complaint**

27 Defendant Simmons moved to dismiss the Amended Complaint pursuant to Fed. R. Civ.
28 Proc. 12(b)(6), arguing that Zinus failed to allege that any case or controversy existed against it

as to the First and Second Counts of Complaint. (Defendant's Motion to Dismiss "Motion" at 5). In Opposition to Defendant's Motion to Dismiss, Zinus acknowledged that it did not allege a case or controversy between Zinus and Simmons with regard to the First and Second Counts of Complaint. (Plaintiff's Opp. to Motion to Dismiss "Opp" at 2). Accordingly, the First and Second Counts of Complaint for declaratory judgment of non-infringement of the '142 Patent and invalidity of the '142 Patent are dismissed as to Simmons.

B. Defendant Simmons' Motion to Dismiss the Third Count of Complaint for Product Disparagement

Defendant Simmons argues that Zinus failed to state a claim for product disparagement under the Lanham Act, 15 U.S.C. 1125(a)(1)(B), which provides:

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

...

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. 1125(a)(1)(B) (2006).

In order to state a claim for product disparagement under the Lanham Act, a plaintiff must allege: (1) that the defendant made a false or misleading statement of fact in commercial advertising or promotion about the plaintiff's goods or services; (2) that the statement actually deceives or is likely to deceive a substantial segment of the intended audience; (3) that the deception is material in that it is likely to influence purchasing decisions; (4) that the defendant caused the statement; and (5) that the statement results in actual or probable injury to the Plaintiff. *Zenith Elects. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348. (Fed. Cir. 1999); *Southerland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1139 (9th Cir. 1997); *Cook, Perkiss and Liehe, Inc. v. Nor. Cal. Collection Serv., Inc.*, 911 F.2d 244 (9th Cir. 1990).

Defendant Simmons contends that Zinus has not sufficiently alleged either direct or vicarious liability against it for a violation of the Lanham Act. (Motion at 7). Simmons also

1 contends that the cease-and-desist letter to Wal-Mart is not a statement in advertising or
2 promotion. (Reply Memorandum in support of Motion to Dismiss "Reply" at 2 Fn 1).

3 1. Allegations Against Simmons

4 Zinus alleged that the cease-and-desist letter was sent by Dreamwell, not by Simmons.
5 (FAC ¶ 26). Accordingly, Simmons argues that Zinus failed to state a claim against it for a
6 violation of the Lanham Act because Zinus has failed to adequately allege either that Simmons
7 directly violated the Lanham Act or that Simmons is vicariously liable for a violation of the
8 Lanham Act. (Motion at 7).

9 a. Simmons' Direct Liability

10 Zinus asserts that it has adequately plead Simmons' direct liability for the
11 cease-and-desist letters by alleging that Simmons "caused Dreamwell to make the false and
12 misleading statements regarding products of Zinus." (FAC ¶ 52.; see also FAC ¶ 27).

13 In review of a 12(b)(6) motion, all allegations of material facts are taken as true.
14 *Erickson v. Pardus*, 127 S.Ct. 2197, 2200 (2007). However, it is Zinus' obligation to provide the
15 grounds of its entitlement to relief, and the complaint must proffer enough facts to state a claim
16 for relief that is plausible on its face. *Bell Atlantic*, 127 S.Ct. at 1956-1967.

17 In the opposition to Simmons' motion, Zinus provides additional facts in support of Simmons'
18 direct liability allegation: Simmons instructed the law firm, Ropes & Gray, to send the
19 cease-and-desist letters on behalf of Dreamwell; Simmons determined that the Zinus product
20 infringed the '142 patent; and Simmons provided to Dreamwell a photograph that its
21 representatives had taken during the factory visit in China which Dreamwell claimed to be a
22 "sample Zinus Product that we (Dreamwell) purchased." (Opp at p. 4, n. 2). These facts,
23 however, are not alleged in the Amended Complaint and cannot be considered in assessing
24 whether the Amended Complaint sufficiently states a claim against Simmons.

25 Zinus did not adequately allege Simmons' direct liability claim for the product
26 disparagement since the mere allegation that Simmons caused Dreamwell to send the letters is
27 conclusory. Nevertheless, Zinus' response made it clear that Zinus can allege facts to state that
28 Dreamwell was acting as Simmons' agent under Simmons' direction in sending the

1 cease-and-desist letters.

2 b. Simmons' Vicarious Liability

3 In a footnote, Zinus asserts a vicarious liability claim by alleging that Dreamwell is the
4 alter-ego of Simmons. (Opp at 3, Fn 1). Simmons argues that Zinus has not sufficiently alleged
5 vicarious liability under the Lanham Act. (Motion at 7). Vicarious liability "requires 'a finding
6 that the defendant and the infringer have an apparent or actual partnership, have authority to bind
7 one another in transactions with third parties or exercise joint ownership or control over the
8 infringing product.'" *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007)
9 (citation omitted) (in context of trademark infringement).

10 As Zinus cites in its opposition, "a parent-subsidary relationship alone is an insufficient
11 basis on which to hold a parent liable for a subsidiary's actions," unless the subsidiary is the
12 parent's alter-ego or acts as the parent's agent. (Plaintiff's Opp. to Motion to Dismiss "Opp" at 3)
13 (citation omitted).

14 The Amended Complaint currently does not allege that Dreamwell is the alter-ego of
15 Simmons.² Accordingly, the Amended Complaint does not state allegations that plausibly
16 suggest Zinus is entitled to relief from Simmons as the alter-ego of Dreamwell.

17 2. The Letter is a "Commercial Advertising or Promotion"

18 Simmons asserts that the Lanham Act does not apply to a cease-and-desist letter because
19 it is not a commercial advertising. (Reply at 2 Fn. 1). The Lanham Act proscribes
20 misrepresentation of another's goods or services in "commercial advertising or promotion." 15
21 U.S.C. § 1125(a)(1)(B).³ In order to qualify as "commercial advertising or promotion," a
22 representation must be: (1) commercial speech; (2) by a defendant who is in commercial
23 competition with the plaintiff; (3) for the purpose of influencing consumers in purchasing

24 ² In Fourth claim for breach of contract, Zinus states "If Dreamwell is found to be an agent
25 or the alter-ego of Simmons, then Dreamwell breached the agreement..." (FAC ¶ 59). But, the
26 Complaint never actually alleges alter-ego liability for Third Claim under the Lanham Act. If
27 Zinus can allege sufficient facts to assert vicarious liability against Simmons, it may make such a
claim in the Second Amended Complaint.

28 ³ To the extent that Zinus argued that the "commercial advertising or promotion"
requirement does not apply to product disparagement claims, Zinus is mistaken.

1 defendant's goods and services; and (4) disseminated sufficiently to the relevant purchasing
2 public to constitute advertising within the industry. *Coastal Abstract Serv. V. First Am. Title Ins.*
3 *Co.*, 173 F.3d 725, 735 (9th Cir. 1999).

4 The cease-and-desist letter is: (1) commercial speech; (2) made by a defendant in
5 competition with the plaintiff. The third and fourth requirements, however, are not as clear.

6 a. To Influence Consumer to Purchase Defendants' Goods

7 Zinus has not alleged that the purpose of the letter was to influence Wal-Mart to buy
8 Simmons' products. The Amended Complaint states the cease-and-desist letters "are likely to
9 influence purchasing decisions of a Zinus customer, Wal-Mart." (FAC ¶ 50). Pleading that the
10 cease-and-desist letters may influence Wal-Mart to refrain from purchasing Zinus' product is not
11 sufficient. *See Rice*, 330 F.3d at 1181; *Costal Abstract Serv.*, 173 F.3d at 735; *Fashion Boutique*
12 *of Short Hills, Inc. v. Fendi USA, Inc.*, 314 F.3d 48, 56-57 (2nd Cir. 2002).

13 b. Sufficient Dissemination

14 Contrary to Simmons' suggestion in its footnote, representations need not be made in a
15 classic advertising campaign, but may consist instead of more informal types of promotion. *Rice*
16 *v. Fox Broadcasting Co.*, 330 F.3d 1170, 1181 (9th Cir. 2003).

17 The Second Circuit, in a well reasoned opinion, concluded that limiting the reach of the
18 Lanham Act to conventional mass media advertising would render the statutory language "or
19 promotion" superfluous. *Fashion Boutique*, 314 F.3d at 57. The Second Circuit concluded:
20 "Although advertising is generally understood to consist of widespread communication through
21 print or broadcast media, 'promotion' may take other forms of publicity used in the relevant
22 industry, such as displays at trade shows and sales presentations to buyers." *Id.*

23 Sufficient dissemination is dependent on the size of the relevant market. When the
24 relevant market is small, limited dissemination is sufficient. *See Coastal Abstract Serv.*, 173
25 F.3d at 735 ("even a single promotional representation to an individual purchaser may be enough
26 to trigger the protections of the Act").

27 In this case, there is a limited number of large-scale retailers that may be willing and able
28 to sell Zinus' product. Accordingly, a statement to Wal-Mart is sufficient dissemination to the

relevant purchasing public, and therefore, constitutes advertising within the industry. For the reasons stated above, Zinus has neither sufficiently alleged that Simmons is liable, either directly or vicariously, nor stated that the cease-and-desist letter satisfied all four criteria to qualify as "advertising or promotion" under the Lanham Act. However, because Zinus can allege other facts to cure the defects, Defendant's motion to dismiss under Fed. R. Civ. Proc. 12(b)(6) is granted as to the Third Count with leave to amend.

C. Defendant Simmons' Motion to Dismiss the Fourth Count of Complaint for Breach of Contract

Simmons asserted that Zinus failed to allege complete performance (Reply at 4). In response, Zinus obtained Simmons' stipulation to amend its complaint to allege its performance more directly. (Docket # 41). Accordingly, Defendant's motion is granted as to the Fourth Count.⁴

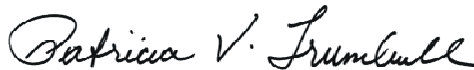
IV. CONCLUSION

For the foregoing reasons, IT IS HEREBY ORDERED that:

1. Simmons' Motion to Dismiss is granted as to the First and Second Counts which are dismissed as to Simmons only and without leave to amend;
2. Defendant's Motion to Dismiss the Third and Fourth Counts is granted with leave to amend;
3. Zinus shall file a Second Amended Complaint no later than December 4, 2007; and
4. Simmons shall file a response within ten (10) days after Zinus' filing of the Second Amended Complaint.

IT IS SO ORDERED.

Dated: December 5, 2007



PATRICIA V. TRUMBULL
United States Magistrate Judge

⁴ The Court will not grant the stipulation for a second amended complaint. Instead, Zinus shall file a second amended complaint in conformance with this Order.